

CSR Disclosure in the Context of Resource-Based View Theory

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Abstract

Resource-Based View (RBV) theory which identifies the nature of company's resources such as valuable, rare, imperfectly imitable and non-substitutable makes contribution to CSR disclosure. The purpose of this study is to examine the relationship of investment and CEO international experience with CSR disclosure. As a proxy to CSR disclosure the words count is analyzed from the annual report of Malaysian PLCs in sensitive industries from 2007 to 2009. The finding reveals that only investment is significant at 1% level to influence CSR disclosure positively, while CEO international experience was not proven to have influence on CSR disclosure. This study supports the dimensions of CSR disclosure analysis using RBV theory especially in Malaysia context after it is made mandatory to PLCs.

Keywords: *CSR disclosure, Resource-Based View theory, Sensitive industries*

1. INTRODUCTION

Corporate social responsibility (CSR) practice requires companies to be accountable to all stakeholders rather than focusing on profit motive alone. It is believed that this practice is beneficial to society because companies are more ethical, legal compliant and respectful towards community and the environment in doing the business. CSR is viewed as public solving mechanism since companies are more responsible on their impact of business activities (Dubink, Graafland & Liedekerke, 2008). In fact, failures to disclose these issues will lead the companies to lose their 'license to operate' (Thompson and Zakaria, 2004). As a consequence, the trend of disclosing of CSR is not only has gained attention in developed countries, but also it is expanded to emerging and developing countries. In line with global trend, Malaysian government has also given increasing focus on CSR issue by emphasizing it in national mission, minister's speeches, policies and campaigns. Malaysian public listed companies (PLCs) are expected to be good neighbours to their host community and they should disclose their CSR (Rahman, Zain, & Al-Haj, 2011). To enhance the level of CSR, the government has made mandatory to PLCs to disclose their CSR in the annual report beginning with the financial year ended 31 December 2007.

Globalization and challenging business environment required the companies to have the best strategies to sustain their business. With regards to this, some scholars agree that RBV theory which identifies the nature of company's resources such as valuable, rare, imperfectly imitable and non-substitutable makes contribution to CSR era because it could provide companies superior performance over their rivals (Conor, 1991). Furthermore, Branco & Rodrigues (2006) also support that CSR analysis can be viewed from RBV perspective as it recognizes the value of intangible resources and capability to achieve competitive advantage. However, which resources to be utilized are indecisive since companies have various types of resources consist of tangible and intangible. Investment and Chief Executive Officer (CEO) international experience are regarded as the most significant corporate resources in shaping the sustainability of the company. The objective of this study is to examine the relationship between firstly investment and CSR disclosure, and secondly CEO international experience and CSR disclosure. The remainder of the paper is organized

as follows. Next section reviews the past literature, follow by research methodology. Finally this paper presents the findings of the result and the conclusion of the study.

2. LITERATURE REVIEW AND HYPOTHESES GENERATION

CSR practice extends the company's responsibility towards other stakeholders. CSR activities nowadays become the corporate agenda due to greater claim for transparency and accountability worldwide (Nielsen & Thomsen, 2007). CSR disclosure is defined as a voluntary disclosure of information to inform audience whether on financial or non-financial terms (Mathews, 1984). It consists of information regarding physical environment, energy, human resources, product and interaction with community (Hackston & Milne, 1996). It is considered as voluntary information because the company is not required to comply with any financial disclosure regime, accounting standards, stock exchange rules and regulation as well as Companies Act in Malaysia (Said, Zainuddin, & Haron, 2009).

In Malaysian context, prior 31 December 2007 there are not much progress on the voluntary CSR disclosure. Based on Budget Presentation of 2006 by the Prime Minister, all public listed companies must disclose their CSR activity. This new regulation has made more companies to actively engage in CSR and it is become part of the business aspiration. The Bursa Malaysia introduced CSR framework on 5 September 2006 as a guideline to assist PLCs in reporting CSR activity. The CSR framework is divided into four areas namely environment, community, workplace and marketplace. Generally, this framework provides a tool to help the companies to practice CSR and they are given flexibility in deciding which area of CSR to be implemented. It is depends on the nature of the business, inclination and resources (Rahman *et al.*, 2011).

Corporate resources and capability are significant in determining the company's success. RBV theory highlight the company could gain competitive advantage by having more intangible resources and capability. Barney (1991) states that four characteristics of resources such as valuable, rare, non-imitable and non-substitutable could be advantages to company to compete with its competitors. Investment is one of the important resources to ensure the sustainability and company's growth. Without investment, the company could not survive in future. From the investor's perspective, they will choose to invest in the best company to secure their return. This is supported by Cox, Brammer & Millington (2004) that found good corporate social companies could attract more investors to protect the risk of their return. Othman *et al.* (2012) stated that investment has positive significant relationship with CSR disclosure. Saleh, Zulkifli & Muhamad (2010) have claimed that investors select shares in the companies that are actively take part in social activity and the information should be communicated in the annual report. However, they reject their investment in poor social performance firms as to reduce the risk of return. (Cox *et al.*, 2004). Thus, the first hypothesis is:

H₁: There is a significant positive relationship between investment and CSR disclosure

Other important company's resource is CEO. As cited by Carpenter, Sanders & Gregersen (2001) from Gregersen, Morrison & Black (1998) international experience is defined as the experience of living and working in foreign countries. Many empirical studies found that worldwide experience CEO contributes positive impact to the company such as create professional competencies of individual CEO and organization (Dickman, 2005) and develop the skills, personal and professional network among various countries (Carpenter *et al.*, 2001). Slater & Dixon-Fowler (2008) have highlighted that worldwide experience CEO has greater feeling to meet broader expectation of stakeholders. Besides, Carpenter *et al.* (2001) also state it is beneficial to the company that is managed by international experienced CEO since they are valuable, rare and inimitable resources. This is supported by Daily, Cetro &

Dalton (2000) who revealed positive relationship between CEO's international experience and corporate social performance. Therefore, it is hypothesized that:

H₂: There is a significant positive relationship between CEO international experience and CSR Disclosure

3. DATA AND METHODOLOGY

The data employed in this study are from the sample companies in sensitive industries consists of industrial products, constructions, properties and plantations listed on the main board of Bursa Malaysia. These sensitive industries give more impact on the environment and thus, these industries are expected to disclose more CSR activities (Othman, Arshad & Darus, 2009). The period of this study is for three years which are companies with financial year ended 31 December 2007 until 2009. These periods are chosen because beginning 31 December 2007 CSR disclosure was made mandatory to Malaysian listed companies. A total of 414 companies were selected with 210 industrial product, 60 construction, 54 plantation and 90 properties companies.

Two independent variables are examined namely investment and CEO international experience. The data on investment measured based on total investment in the company are retrieved from the Data Stream (Othman, San, Aris & Arshad, 2012). While, the data on CEO international experience coded as '1' if the CEO has an international experience and otherwise coded '0' (Slater & Dixon-Flower, 2008) are extracted from the company's annual report. Content analysis method is employed to measure CSR disclosure according to the number of words disclosed in the annual report (Ratanajongkol, Davey & Low, 2006). The model to be tested in this study is as follows:

$$\text{CSR DISCLOSURE} = \beta_0 + \beta_1 \text{INVEST} + \beta_2 \text{CEOINT} + \epsilon \quad (1)$$

Whereby:

CSR DISCLOSURE = Corporate social responsibility disclosure

INVEST = Investment

CEOINT = CEO international experience

ε = Error term

4. DATA ANALYSIS AND FINDINGS

Multiple regressions is used to test the hypotheses in this study. Several tests have been undertaken to check the existence of any statistical problems.

Based on Table 1, the test showed that no multicollinearity problem exhibit as none of the correlation value of independent variables is above 0.8. This is evidence by computing variance inflation factor (VIF) and tolerance in Table 2 where none of the VIF is above 10 and none of the tolerance is less than 0.2. Furthermore, normality test on Kolmogorov-Smirnov was also conducted.

Table 1: Pearson Correlation Coefficient

		INVEST	CEOINT	CSR DISCLOSURE
INVEST	Pearson Correlation	1	.276**	.218**
	Sig. (1-tailed)		.000	.000
CEOINT	Pearson Correlation	.276**	1	.006
	Sig. (1-tailed)	.000		.451
CSR DISCLOSURE	Pearson Correlation	.218**	.006	1
	Sig. (1-tailed)	.000	.451	

** . Correlation is significant at the 0.01 level (1-tailed).

The result from Table 2 showed that Adjusted R square value is 0.046. It indicates 4.6% of total variation in CSR disclosure can be explained by the changes of independent variables. The remaining 95.4% is due to the randomness and other variables that are not included in the model. Overall, the model is significant at 1% based on the p-value.

Table 2: Multiple regression

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.225 ^a	.051	.046	.9449827	11.000	.000 ^a

a. Predictors: (Constant), CEOINT, INVEST

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	.061	.073		.824	.410		
1	INVEST	.229	.049	.234	4.689	.000	.924	1.083
	CEOINT	-.115	.098	-.059	-1.173	.241	.924	1.083

a. Dependent Variable: CSR DISCLOSURE

The result in Table 2 also indicates the value of investment coefficient is positively related to CSR disclosure and it is significant at 1% level. This finding implies that investment is important resources that influence the disclosure of CSR in the annual report, the more investments in the company, the more CSR disclosure. This supports H1, which is consistent with the finding of Othman *et al.* (2012).

However, CEO international experience is insignificant in explaining and CSR disclosure, therefore, H2 is rejected. It is contradict with Slater & Dixon-Fowler (2008) who found that international experience of CEO is more conscious on broader stakeholders. A possible explanation is the scarcity of resource especially in 2007 due global financial crisis limits the overseas assignments of the firms. Usually the disclosure of CSR is costly to the company, thus, it is unnecessary to produce the CSR report especially when they faced scarcity of resources (Othman *et al.*, 2012). Furthermore, Malaysian PLCs are obligated to disclose their CSR after the mandatory requirement by government effective 31 December 2007

regardless of the CEO international experience. As a result the international experience CEO did not support the disclosure of CSR.

5. CONCLUSION

This study has examined the relationship between independent variables namely investment and CEO international experience with CSR disclosure. The result shows there is significant positive relationship between investment and CSR disclosure. This finding implies that investment as a company corporate resource could increase the disclosure of CSR among companies. On the other hand, CEO international experience is found to have insignificant relationship with CSR disclosure. It means CEO international experience could not enhance the disclosure of CSR in the annual report.

In summary, these findings infer that RBV theory support the analysis, in which investment is a significant corporate resources could influence the CSR disclosure. Hence, it is suggested that to improve the disclosure of CSR, the companies should ensure the investment is continuously flow in their companies. Therefore, they should think the best way to attract the confidentiality of the investors to invest in their companies. In addition, the model used and the arguments made will assist future researchers to enhance the knowledge in the area of CSR disclosure. It is hoped that the findings may help regulators to improve the disclosure of CSR especially after it is made mandatory to Malaysian PLCs.

Among the limitations of this study are samples limited to sensitive industries, coverage data only from companies' year end 31 December 2007 to 2009, using the annual report to examine CSR disclosure as well as adjusted R square is 4.6% which is too low. To add the findings of this study, future works should be undertaken in several ways. Samples should extends to all Malaysian PLCs, longer period of study, examine CSR disclosure from website and companies' standalone report, adding more variables or using other proxies of CSR disclosure.

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